

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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August 26, 2008

Mr. Maurice Shiu
 Public Works Director
 Contra Costa County Department of Public Works
 255 Glacier Drive
 Martinez, CA 94553-4825

Re: Contra Costa County Department of Public Works
 Audit of Indirect Cost Rate Proposal for Fiscal Year 2003
 File No: P1190-0639

Dear Mr. Shiu:

We have audited the Contra Costa County Department of Public Works (PW) Indirect Cost Rate Proposal (ICRP) for the fiscal year ended June 30, 2003 to determine whether the ICRP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The PW management is responsible for the fair presentation of the ICRP. The PW proposed the following Departmental and Divisional Indirect Costs Rates that represent a percentage of total direct salaries and wages plus fringe benefits:

FYE 06/30/03

Departmental No.	Departmental Name	Departmental Rate
4501 for all Orgs.	PW Admin	16.79%
Divisional No.	Divisional Name	Divisional Rate
4510	Real Prop	69.85%
4523	Environmental	73.41%
4525	Trans Engr	75.65%
4530	Records	87.32%
4539	Design	67.78%
4543	Construction	76.62%
4544	Mats. & Testing	120.00%
4547	Mtc. Engr	220.78%
4548	Mtc. Crews 21 & 31	45.40%
4549	Mtc. Crews 76, 78, & 81	45.29%
4550	Mtc. Crews 36 & 41	31.34%
4551	Mtc. Crews 51, 91, & 61	41.42%

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the PW. Therefore, we did not audit and are not expressing an opinion on the PW's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the PW, as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the PW in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a comparison of the ICRP to single audit reports for the fiscal year ended June 30, 2003, inquiries of PW personnel, and a comparison of the FY 2003 ICRP to prior year ICRPs, and prior audit field work performed by Department staff on April 2, 2003. Additionally, our audit included follow-up on our prior audit findings identified in our audit report dated March 21, 2006, file P1190-0587. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation take into consideration the PW's response dated May 13, 2008, to our May 12, 2008 draft findings. Our findings and recommendations, a summary of the PW's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, the PW's ICRP for the fiscal year ended June 30, 2003 is presented in accordance with OMB Circular A-87 and LPP 04-10. Therefore, the aforementioned indirect cost rates are approved as submitted. Indirect cost rates for fiscal year ended June 30, 2003 are based on actual costs, thus the carry forward provision does not apply. Our audit work identified an audit finding which is detailed below. Additionally, the results of our follow-up on prior audit findings is also detailed below.

Unresolved Prior Audit Findings

During our follow-up work to the findings identified in the P1190-0587 audit report, we found that the PW failed to implement appropriate corrective action to resolve findings 1, 3 and finding 5 as follows:

- Public Works does not have unallowable and allowable direct and indirect accounts to ensure that unallowable costs are excluded from billings to the Department.
- Many of the account costs within the various Divisions are not identified by an activity code that would allow them to be properly segregated and accumulated as either a direct or indirect cost. These costs are coded with a general default code such as "999SAS". Public Works is then required to manually segregate these costs to establish the indirect cost rate for each Division.
- The PW included direct Daily Equipment Use costs in the pool of indirect costs for the Maintenance Divisions 4548, 4549, 4550 and 4551. Subsequently and per our request, the PW manually adjusted the indirect cost pool for each of the Divisions and only included the indirect costs.

49 CFR 18.20 (b) (1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. LPP 04-10 states that the costs of salaries, wages and other related project costs may be reimbursable and must be broken into eligible direct and/or indirect cost components.

An appropriate segregation of costs is required in the development of an indirect cost rate as a rate based on erroneous costs increases the risk of an overpayment of indirect costs to the PW.

Recommendation

We recommend that the PW ensure that effective corrective action is taken to ensure the appropriate segregation of allowable direct and indirect costs.

PW Response

Public Works is searching for a way to implement this finding. We have some possibilities that we will be exploring. If one of these turns out to be workable, time efficient and is compatible with our budget constraints, we will implement as quickly as possible. It is possible however, that costs associated with the solution, may exceed our current budget restrictions, which will require us to continue this manual segregation at the present time.

If we are forced to continue a manual segregation for the time being, we will strive to significantly reduce any correction actions. The number of corrections required on this cost report was the result in a high turnover of staff due to promotions and retirements. Current staff is now familiar with the requirements, has a better understanding of allowable costs, and have trained additional staff in this function.

Analysis of Response

The finding and recommendation remain.

Finding 1

The PW's ICRP submittal, for the third year in a row, included various material errors which upon auditor's inquiries and recalculations, resulted in numerous adjustments and revisions to the final rates. 49 CFR 18.20 (b) (1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Indirect cost rates based on erroneous information increases the risk of an over reimbursement to the PW.

Recommendation

We recommend that, prior to submittal to the Department, the PW ensure that future ICRPs are thoroughly reviewed and reconciled to supporting documents in order to minimize the potential of errors or adjustments.

PW Response

The PW's response did not address this finding.

Analysis of Response

The finding and recommendation remain.

This report is intended solely for the information of the PW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposal for your files. Copies were sent to the Department's District 4, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Elena Guerrero at (916) 323-7954 or Teresa Greisen, Audit Manager, at (916) 323-7910.


MARY ANN CAMPBELL-SMITH
Chief External Audits

Attachments

c: Brenda Bryant, FHWA
Sue Kiser, FHWA
Gary Buckhammer, HQ Accounting
Sylvia Fung, District 4
P1190-0639

**Contra Costa County
Department of Public Works
Indirect Cost Rate Proposal**

The indirect cost rates contained herein are for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Contra Costa County Department of Public Works and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Org</u>	<u>Rate</u>	<u>Applicable to</u>
Departmental				
Final	07/01/02 to 06/30/03	All Orgs	16.79%	All Programs
Divisional				
Final	07/01/02 to 06/30/03	4510	69.85%	All Programs
Final	07/01/02 to 06/30/03	4523	73.41%	All Programs
Final	07/01/02 to 06/30/03	4525	75.65%	All Programs
Final	07/01/02 to 06/30/03	4530	87.32%	All Programs
Final	07/01/02 to 06/30/03	4539	67.78%	All Programs
Final	07/01/02 to 06/30/03	4543	76.62%	All Programs
Final	07/01/02 to 06/30/03	4544	120.00%	All Programs
Final	07/01/02 to 06/30/03	4547	220.78%	All Programs
Final	07/01/02 to 06/30/03	4548	45.40%	All Programs
Final	07/01/02 to 06/30/03	4549	45.29%	All Programs
Final	07/01/02 to 06/30/03	4550	31.34%	All Programs
Final	07/01/02 to 06/30/03	4551	41.42%	All Programs

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rate is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rates would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rates are contained in the grantee's Single Audit which was prepared in accordance

with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The costs used in the calculation of the rate are from the grantee's accounting system general ledger report for the fiscal year ended June 30, 2003.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Final Rate with No Carry Forward:

The final rate used in this Agreement is based upon actual costs for the period covered by the rate, therefore a carry forward does not apply.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation: See attached spreadsheet

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2003 (July 1, 2002 to June 30, 2003) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for

State, Local and Indian Tribal Governments.” Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the final rate.

I declare that the foregoing is true and correct.

Governmental Unit: Contra Costa County Public Works Department -

Signature:



Signature:



Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: ^{for} Julia R. Bueren

Name of Official: Wanda Quever

Title: Public Works Director, CCC

Title: Public Works Fiscal Officer

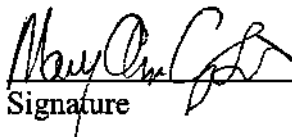
Date of Execution: May 7, 2008

Telephone No.: 925-313-2372

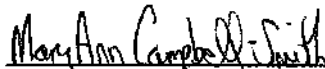
INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature



Reviewed and Approved by:



Name of Audit Manager

Title: Chief, External Audits

Date: 8/25/08

Phone Number: (916) 323-7105

Signature



Reviewed and Approved by:



Name of Auditor

Title: Auditor

Date: 8/25/08

Phone Number: (916) 323-7954

Contra Costa County
Public Works
Indirect Cost Rates
Fiscal Year 2002/2003

A									
1	Org Numbers	B	C	D	E	F	G	H	I
2	FISCAL YEAR 02/03	4501	4510	4523	4525	4530	4539	4543	4544
3	Org Name	PW ADMIN	Real Property	Environmentl	Trans Engr	Records	Design	Constrn	M & T Lab
4	Total Actual Salaries & Benefits Per Financial System	3,761,475	1,016,500	335,865	1,521,854	212,152	1,480,428	1,092,214	522,324
5									
6	Total Weighted Salaries & Benefits Per Job Cost System (Direct)		777,042	273,060	1,237,396	184,031	1,250,612	893,922	416,011
7	Total Weighted Salaries & Benefits Per Job Cost System (Direct & Indirect)		1,012,774	359,690	1,614,819	222,093	1,583,789	1,139,991	574,636
8	Rate = (Direct) / (Direct + Indirect)		76.72%	75.92%	76.63%	82.86%	78.96%	78.41%	72.40%
9									
10	Final Direct Salaries & Benefits (Rate * Total Actual Salaries & Benefits Per Fin. System)		779,859	254,837	1,166,043	175,789	1,168,946	856,405	378,163
11	Final for Actual Indirect Salaries & Benefits		236641.00	80828.00	355611.00	36363.00	311482.00	235809.00	144161.00
12									
13	Total Operating Expense [Indirect] (2000)	2316272.00	116892.00	41129.00	239995.00	69809.00	200170.00	222716.00	306795.00
14									
15	Adjustment for Building Occupancy Allocation Costs		8719.00	1863.00	12369.00	5767.00	11611.00	8719.00	58947.46
16	Adjustment for Mortgage Principal Costs		(6073.00)	(1297.00)	(8586.00)	(4009.00)	(8087.00)	(6073.00)	(146969.00)
17	Adjustment for CAD Allocation Costs		0.00	0.00	9275.00	0.00	4638.00	0.00	0.00
18	Adjustment for WAN Costs		(570.00)	(259.00)	(881.00)	(311.00)	(881.00)	(364.00)	(103.00)
19	Adjustment for Oracle Costs		556.00	278.00	945.00	276.00	945.00	386.00	111.00
20	Adjustment for PC Costs		17929.00	8171.00	17929.00	9997.00	23886.00	11584.00	3173.00
21	Total Adjustment		20561.00	8756.00	31051.00	11712.00	32112.00	14255.00	(84840.54)
22									
23	Total Other Expenses [Indirect] (3000/4000)	154600.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
24									
25	Reimbursements GOV/GOV 5011	300048.00							
26	Intalund Trans Services 5002 5024	(1512358.00)							
27	Total Expenditure Transfers (5000)	(1212310.00)							
28	Org Balance Per Expenditure Detail	5020037.00							
29	Total Org Revenue (9000)	-898,627							
30	Net ORG Per Final Finance	4,121,410							
31									
32	Department Salaries (Direct & Indirect)		1,016,500	335,865	1,521,654	212,152	1,480,428	1,092,214	522,324
33	Department Indirect Cost Rate		16.79%	16.79%	16.79%	16.79%	16.79%	16.79%	16.79%
34	Departmental Indirect Cost		170,670	56,358	255,486	35,620	248,564	183,363	87,698
35	Adjustment for Mortgage Principal Costs	(72,145)							
36	Total Indirect Expenses	4,049,265	544,764	187,071	882,143	153,504	792,328	656,163	453,813
37									
38	Divisional Indirect Cost Rate		69.85%	73.41%	75.65%	87.32%	87.78%	76.82%	120.00%
39									
40	Total Actual Salaries and Benefits Per Finance System	24,123,721							
41									
42	Department Indirect Cost Rate = Total 4500 O/H Expenditure divided by								
43	total department salary and benefits	16.79%							